

# Determinant of Firm Value LQ45 on Indonesia Stock Exchange

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## ARTICLE INFO

Date received : 01 August 2020  
Revision date : 25 August 2020  
Date received : 05 September 2020

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**Keywords:**

*Firm Value  
Profitability  
Leverage*

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## ABSTRACT

This research aims to determine the profitability and leverage of partial influence on the firm value LQ45 on the Indonesian stock exchange in 2015-2019. The research method used is a double linear regression analysis with the help of the SPSS 25.00 application. The results showed that profitability with leverage influence the firm value LQ45 on the Indonesian Stock Exchange in 2015-2019.

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## INTRODUCTION

Entering the era of globalization with the rapid development of the economy, not few companies emerge with various fields of business. Such conditions cause the company to experience increasingly competitive competition in the effort to break through the market share of the domestic and international markets to achieve the sales target set by the management.

The purpose of establishing a company is not only to achieve the maximum profit but also to improve the prosperity of the parties related to the activities of the company, such as shareholders and stakeholders. One way to improve the prosperity of those parties, among others by increasing the firm Value. Generally, the height of firm Values can provoke investor interest to invest in the company. That is because such companies are considered to have good prospects and promising long -term (Ratnadewi & Ulupui, 2016).

Each company has short-term and long-term objectives in which the company must maintain its firm value, the company performs a short-term goal to gain profit while its long-term goal is to maximize the firm Value (Mariana et al., 2020).

The increased firm value may be able to fulfill customer service, to provide comfort to the investor to invest in the company. However, to determine if there is an increase in firm value in the eyes of investors and the public can be seen from the company cash flow (Penman, 2001). Firm Value

Determination varies on the company's ability to generalize in prospective cash flows, except in unusual circumstances where net assets are liquidated to have a greater value of cash flow (Mariana et al., 2020).

There are several factors that can affect the firm value, this research will discuss three factors that are dominant affects the firm value of profitability (Dewi & Wirajaya, 2013; Fibriyanto, 2015; Hermuningsih, 2012; Mariana et al., 2020; Rizqia et al., 2013; Rudangga & Sudiarta, 2016; Setiadewi & Purbawangsa, 2015; Stela & Rhumah, 2017; Tahu & Susilo, 2017), leverage (Rizqia et al., 2013; Rudangga & Sudiarta, 2016; Setiadewi & Purbawangsa, 2015; Stela & Rhumah, 2017; Tahu & Susilo, 2017).

The first factor that affects the firm Value is profitability (Dewi & Wirajaya, 2013; Fibriyanto, 2015; Hermuningsih, 2012; Mariana et al., 2020; Rizqia et al., 2013; Rudangga & Sudiarta, 2016; Setiadewi & Purbawangsa, 2015; Stela & Rhumah, 2017; Tahu & Susilo, 2017). Profitability is a financial ratio linking the elements of the balance sheet and income statement with each other can give an overview of the company's history and its position at the current rank (Mariana et al., 2020). Profitability effect on firm value (Dewi & Wirajaya, 2013; Fibriyanto, 2015; Mariana et al., 2020; Rudangga & Sudiarta, 2016; N. Sari & Febriyani, 2017; P. I. P. Sari & Abundanti, 2014; Setiadewi & Purbawangsa, 2015). The higher the profitability

ratio The company demonstrates the effectiveness of a company in managing its assets to obtain net profit after tax, so that profitability information becomes a positive value for investor and can increase the firm Value. The better the growth of profitability shows the prospects of the company in the future assessed the better, too, this means that better also firm Value in the eyes investor in the eyes of investors (P. I. P. Sari & Abundanti, 2014).

The second factor that affects the firm value is leverage (Rizqia et al., 2013; Rudangga & Sudiarta, 2016; Setiadewi & Purbawangsa, 2015; Sofiamira & Asandimitra, 2017; Stela & Rhumah, 2017; Tahu & Susilo, 2017). Leverage measured by Debt to Equity Ratio (DER) indicates the company's financial risk because it uses debt as its source of funding. The higher the value of this ratio for banks is considered increasingly risky to be given loans (Mariana et al., 2018). Leverage shows the effect of firm Value (Rizqia et al., 2013; Sofiamira & Asandimitra, 2017; Stela & Rhumah, 2017).

This type of research is causal associative using Multiple linear regression (MLR) methods. This Research uses THE LQ45 Company object listed on THE Indonesia Stock Exchange in 2015-2019. This is because, LQ45 is a stock market index in the Indonesia Stock Exchange consisting of 45 high liquidity Company, Selected through multiple selection criteria, in addition to the liquidity assessment, selection of the company also considers the market capability and is included in top 60 companies with the highest market capitalization in the last 12 months.

What is the problem in this research if profitability and leverage have a partial influence on the firm value LQ45 on the Indonesian stock exchange in 2015-2019?

## THEORY, FRAMEWORK AND HYPOTHESIS

### Firm Value

The firm value itself is the price received by prospective buyers who are paid by companies sold (Dewi & Wirajaya, 2013). The Firm value is very important because a high corporate value will be attended by shareholder prosperity (Brigham dan Houston, 2012). Firm value can reflect from its stock price which shows the higher the share price of the company then the higher firm value to be acquired (Wiagustini, 2010). The value of the company not only reflects how intrinsic value at this time but also reflects prospects and hopes for the company's ability to increase its value in the future (Mariana et al., 2020). The formula of firm value is:

$$PBV = \frac{\text{Market Price per Share}}{\text{Book Value per Share}}$$

### Profitability

Profitability is the ability of a company to generate profit during a certain period at the level of sales, assets, and capital of certain stocks. Profitability A company can be assessed through various means depending on the profit and assets or capital that will be compared with each other. Improving corporate profits and maximize firm value is an enterprise interrelated objective to improve the welfare of shareholders so that these objectives will be an important criterion for maintaining the continuity of the company (Mariana et al., 2020). The formula of profitability is:

$$ROA = \frac{\text{Net Income}}{\text{Average Total Assets}}$$

### Leverage

Leverage is the use of assets and sources of funds by companies that have a fixed cost (fixed load) with the intent to increase shareholders' profits. Leverage measured by der. Der Comparison between current and long-term debts with the amount of own capital (Mariana et al., 2018). DER is used to see the condition of leverage, which is how much of its capital that prospective debtors have to support the operation of the company, whether the leverage condition is still at a reasonable level or has been in an alarming position (Mariana et al., 2018). The formula of leverage is:

$$DER = \frac{\text{Total Liabilities}}{\text{Total Shareholders' Equity}}$$

### Effect of Profitability on Firm value

The probability of companies with high profits tends to use more loans to obtain tax benefits. Profitability is the ratio of management effectiveness based on the results of returns generated from sales and investments that measure how much the company's ability to generate profits (Harahap, 2009). Profitability is measured using Return On Assets (ROA) which is the ratio of net profit to the total asset to measure return on total assets (Brigham dan Houston, 2012). Profitability effect on firm value (Dewi & Wirajaya, 2013; Fibriyanto, 2015; Mariana et al., 2020; Rudangga & Sudiarta, 2016; N. Sari & Febriyani, 2017; P. I. P. Sari & Abundanti, 2014; Setiadewi & Purbawangsa, 2015).

H1: Profitability effect on firm Value

### Effect of Leverage on Firm Value

The higher the ratio of the comparison between the total debt with the total existing equity the higher the leverage level of a business unit (Suroso, 2013). High Leverage shows the height of a funded business that is sourced from debt. The higher the debt is causing the difficulty of an attempt to pay off

obligations assuming the limited cash flows (Mariana et al., 2018). Leverage shows the effect of firm Value (Rizqia et al., 2013; Sofiamira & Asandimitra, 2017; Stela & Rhumah, 2017).

H2: Leverage shows the effect of firm Value

Based on the thought frame outlined earlier, the picture. 1 presented scheme of thought frameworks:

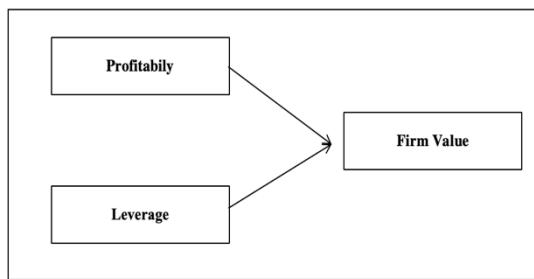


Image 1. Framework

## METODE

The populations used in this research company were included in the LQ45 period of February 2015 to August 2019. LQ45 is a stock market index in the Indonesia Stock Exchange consisting of 45 high liquidity company, selected through multiple selection criteria, in addition to the liquidity assessment, selection of the company also considers the market capitals and is included in the top 60 companies with the highest market capitalization in the last 12 months. The determination of the sample design used in this study is based on the census sampling method, which is the technique of all population members used as samples. With sample selection criteria:

1. Companies included in the LQ 45 period from February 2015 to August 2019;
2. Reports are taken at the end of last year.

Secondary data were obtained using online access <http://www.idx.co.id/> by downloading all the published financial statements according to criteria predetermined sample (Mariana et al., 2020). The data analysis method used in this research is multiple linear regression analysis. Multiple linear regression analysis is used to predict how changes in the value of the dependent variable when the independent variable value increased or decreased in value (Firdaus, 2011; Mariana et al., 2018), which is defined as follows:

$$PBV = a + b_1 ROA + b_2 DER + e$$

Dimana:

PBV	=	Firm Value;
a	=	Constant;
b <sub>1</sub> , b <sub>2</sub>	=	Regression coefficient;
ROA	=	Profitability;
DER	=	Leverage; and
e	=	Error Terms.

Partial hypothesis Testing Plan (Test T), this Test will prove H<sub>0</sub> or H<sub>a</sub> to be accepted. If H<sub>a</sub> is accepted then H<sub>0</sub> is rejected. Hypothesis testing is used to know the relationship between the two variables there is a close or mutual Relationship, between the free variables that are in the research in profitability and leverage as well as variables tied to the Company's value, then conducted a zero Hypothesis test where T-test result decision can be seen in the coefficients table in column sig (significance). If the probability of a T value or significance is < 0.05, then it can be said that there is a partial influence between the free variables to the bound variables. However, if the probability of a value of T or significance is > 0.05, then it can be said that there is not a significant partial influence between each variable being free of bound variables (Mariana et al., 2020).

## RESULTS AND DISCUSSION

1 and 2 hypothesis tests are conducted with multiple linear regression analyses. Multiple linear regression results are presented in Table 1, can be constructed a regression equation such as the following:

Table 1 Coefficients

Variable	Unstandardized Coefficients		T	Sig
	B	Beta		
(Constant)	4.241		33.635	.000
ROA	.055	.265	2.958	.004
DER	.043	.206	2.300	.023
F hitung = 9.494			Sig = 0,000	
R = 0.376			R <sup>2</sup> = 0.142	Adjusted R = 0.127

$$PBV = a + 0.055 ROA + 0.043 DER + e$$

The value of the coefficient of determination shown in table 2 of 0.127 or 12.7% means that the profitability variable and the company's leverage is only able to explain firm size by 12.7%, the

remaining 87.3%. The ability to explain this independent variable is very low, the rest is influenced by variables that are not used as indicators in this study.

### **Effect of Profitability on Firm Size**

Based on the results of regression in table 1 It is known that magnitude Profitability value is 0.004 with a T value of 2.958. The value of 0.004 is smaller than  $\alpha = 5\%$  or  $0,004 < 0,050$ . Thus, H01 rejected and Ha1 not rejected, which means that profitability influence the significance of the firm size of the company LQ45 on the Indonesia Stock Exchange in 2015-2019. The profitability variable coefficient value of 0.055 explains that if profitability increase by 1 (one) percent, it will result in a bullish firm size of 5.5 percent, assuming a constant another variable.

Profitability has a significant significance to the firm size, it proves the high Profitability value will increase the firm value. This is in line with previous research that proves that profitability affects the company's Strongswan (Dewi & Wirajaya, 2013; Fibriyanto, 2015; Mariana et al., 2020; Rudangga & Sudiarta, 2016; N. Sari & Febriyani, 2017; P. I. P. Sari & Abundanti, 2014; Setiadewi & Purbawangsa, 2015). Yet another study found that firm value was not influenced by profitability (Chaidir, 2014; Hermuningsih, 2012; Wedayanthi & Darmayanti, 2016).

### **Effect of Leverage on Firm Size**

Based on the results of regression in table 1 It is known that the significance value for variable leverage is 0.023 with a T value of 2.300. The value of 0.023 is smaller than  $\alpha = 5\%$  or  $0.001 < 0.05$ . Thus H02 rejected and Ha2 not rejected which means that the leverage is influential significance to the firm value of the company LQ45 on the Indonesian stock exchange in 2015-2019. The value of a regression coefficient for a leverage variable of 0.043 indicates that if the leverage increased by 1 (one) percent, it would have resulted in leverage of 4.3 percent, assuming another constant variable.

Leverage has a significant significance to the firm size, it shows that the high leverage value of the firm's value will also increase. It supports the results of previous research that proves that leverage affects firm Value (Rizqia et al., 2013; Sofiamira & Asandimitra, 2017; Stela & Rhumah, 2017).

## **CONCLUSION**

Profitability has a significant significance to the firm size, it proves The high Profitability value will increase the firm Value.

Leverage has a significant significance to the firm size, it shows that the high leverage value of the firm's value will also increase.

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